

October 09, 2019

M. Pallonji & Company Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	17.00	17.00	[ICRA]A+ (Stable); Reaffirmed
Non-fund based limits	25.00	25.00	[ICRA]A1+; Reaffirmed
Total	42.00	42.00	

*Instrument details are provided in Annexure-1

Rationale

While arriving at the rating, ICRA has taken a consolidated view of M. Pallonji & Company Private Limited (MPCPL) along with its wholly-owned subsidiary, M. Pallonji Logistics Private Limited (MPLPL) and its Singapore-based step-down subsidiary, M. Pallonji Logistics Singapore Pte Limited (MPLSPL), owing to the significant operational linkages shared between them. The debt on the books of MPLSPL has been backed by a corporate guarantee from MPLPL.

The rating reaffirmation takes into account the company's strong financial profile as indicated by healthy liquidity profile coupled with robust profitability levels and cash accruals generated in the business. The significant liquid investments (~Rs. 337 crore of investments in mutual funds, bonds, listed shares, etc, on a consolidated basis as on March 31, 2019) further enhances the financial flexibility of the Group. The rating takes into account the long-term arrangement of the Group with The Tata Power Company Limited for barging and dredging activities that ensure sustainable cash flows at a consolidated level. The rating also considers the company's diversified portfolio, demonstrated track record and extensive experience in the industry, including its well-established relationships with customers forged over the years. Further, the healthy order book position provides revenue visibility for the next 1–2-year period. The company's shipping business (under MPLSPL) has also witnessed improvement in the dry bulk charter rates over the past year in addition to healthy utilisation of its three vessels.

The rating is, however, constrained by the Group's large debt-funded capital expenditure of \$73 million for the acquisition of three dry bulk vessels during FY2017, which led to the addition of external debt of \$41.65 million on the books of MPLSPL, backed by a corporate guarantee from MPLPL. The debt coverage indicators on a consolidated basis have thus moderated to some extent, but continue to remain healthy. The rating further takes into account the cyclicity in the shipping business and the corresponding fluctuations in the charter rates for dry bulk vessel, which is, however, mitigated to a certain extent because of the pool hire arrangement with Klaveness pool. MPLSPL may require financial support from the parent entities to meet its debt servicing, in the event the charter rates witness significant decline, though the ballooning repayment schedule of the term loan provides comfort from a credit perspective.

Being the flagship entity of the Group, MPCPL has extended sizeable support to other Group ventures that has led to a large investment portfolio that has subdued the company's return indicators to some extent. Any sizeable increase in the financial support extended to Group companies would be a rating sensitivity. ICRA also notes the dependency of fresh order inflows on the overall macroeconomic environment. Coupled with the competitive bidding-based system for awarding contracts, this may have an adverse bearing on the revenues as well as profitability on a standalone basis. The

presence of long-term contracts, particularly in the barging business (which is mainly carried out by MPLPL), however, provides support to the revenue stream on a consolidated basis.

Key rating drivers and their description

Credit strengths

Well-established position and extensive experience of the management – Incorporated in 1950, MPCPL is the flagship company of M. Pallonji Group, which has more than 60 years of industry experience. Over the years, the company has built a well-diversified business portfolio that includes industrial painting, dredging, construction, port logistics, etc. The company has a diversified portfolio, demonstrated track record and extensive experience in the industry, along with well-established relationships with its customers.

Strong financial profile - The financial profile of the Group remains strong with healthy cash accruals, given the long-term contracts the company has with reputed clients in painting, barging and dredging businesses. The significant liquid investments (~Rs. 337 crore in mutual funds, bonds, listed shares, cash, etc, on a consolidated basis as on March 31, 2019) further enhances the financial flexibility of the Group.

Healthy cash generating ability for most Group businesses – The Group's businesses are diversified with a healthy potential, given the demand scenario. Moreover, the Group's increased focus on these businesses provides revenue visibility for the near to medium term. The long-term arrangement with The Tata Power Company Limited for barging and dredging activities ensures sustainable cash flows at a consolidated level. Apart from that, MPCPL's order book position remains healthy and its ability to win orders remains critical.

Credit challenges

Support extended to other Group companies and businesses - Being the flagship entity of the Group, MPCPL has extended sizeable support to other Group ventures, leading to a large investment portfolio that has subdued the company's return indicators to some extent. MPCPL's wholly-owned subsidiary MPLPL has extended corporate guarantee for the long-term debt of \$41.65 million raised by MPLPL's Singapore-based subsidiary, MPLSPL, for the acquisition of three dry bulk vessels. Any sizeable increase in the financial support extended to Group companies would be a rating sensitivity.

Inflow of fresh orders exposed to macroeconomic environment - ICRA notes that fresh order inflows are dependent on the macroeconomic environment and the company had witnessed moderation on that front in the past few fiscals. Coupled with the competitive bidding-based system for awarding contracts, this may have an adverse bearing on the revenues as well as profitability on a standalone basis. However, the presence of long term contracts, particularly in the barging business which is carried out by MPLPL, provides support to the revenue stream on a consolidated basis.

Business remains exposed to fluctuations in the shipping industry - The shipping business, which is carried out by one of the Group companies, remains vulnerable to the fluctuations in the shipping industry. However, the improvement in the global trade scenario has led to healthy upward movement in charter rates in recent months. The logistics business, which includes port logistics as well as transportation of cargo through rail and road, remains the main revenue driver.

Liquidity position: Strong

MPCPL's liquidity is **strong** with healthy cash and liquid investments of ~Rs. 337 crore as on March 31, 2019, in addition to the cash flow from operations of nearly Rs. 110 -115 crore with a minimal capex requirement in FY2020 and negligible working capital utilisation. The company has debt repayments obligation of \$ 2.92 million in FY2020 for the term loan availed by MPLSPL, which remains modest in comparison to the healthy cash accruals and liquid investments of the Group.

Overall, ICRA expects MPCPL to be able to meet its near term commitments through internal sources of cash and yet be left with sufficient cash surpluses. In addition, the company has healthy financial flexibility to be able to raise debt at a short notice on account of significant liquid investments.

Rating sensitivities

Positive triggers: ICRA could upgrade MPCPL's rating if it demonstrates a sustained improvement in its scale of operations with a strong profitability metrics.

Negative triggers – Negative pressure on MPCPL's rating could arise if the charter rates witness sharp decline, resulting in substantial impact on profitability at a consolidated level. A rise in debt-funded capex or investments resulting in Total Debt/OPBITDA exceeding 2.5 times, or a material weakening of DSCR could exert negative pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Shipping Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of the parent company, MPCPL. As on March 31, 2018, the company had four subsidiaries, one step-down subsidiary and an associate company, which are all enlisted in Annexure-2.

About the company

M. Pallonji & Co. Private Limited (MPCPL) provides services like logistics, dredging, industrial coating and painting on a contract basis. Incorporated in 1950, it is a closely held private limited company. The company's clientele includes power generating (thermal and hydro) stations, chemical and fertiliser factories, petroleum refineries, offshore oil and gas platforms, etc.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	269.2	541.7
PAT (Rs. crore)	114.5	152.8
OPBDIT/OI (%)	45.3%	34.6%
RoCE (%)	11.5%	13.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.3
Total Debt/OPBDIT (times)	3.9	1.5
Interest Coverage (times)	18.2	8.4
DSCR	20.0	9.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2019	FY2018	FY2017
					09-Oct-2019	27-Sep-2018	10-July-2017	07-December-2016
1	Fund based Limits	Long term	17	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund based Limits	Short term	25	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based Limits	--	--	--	17	[ICRA]A+ (Stable)
NA	Non-fund based Limits	--	--	--	25	[ICRA]A1+

Source: MPCPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
M Pallonji leasing Private Ltd.	55.38%	Full Consolidation
M Pallonji Logistics Pvt. Ltd.	99.98%	Full Consolidation
M Pallonji Venture Pvt. Ltd.	70.00%	Full Consolidation
M Pallonji Enterprise Pvt. Ltd.	69.67%	Full Consolidation
M Pallonji Shipping Pvt. Ltd.	33.33%	Equity method
M Pallonji Logistics Singapore Pte. Ltd.	99.98%	Full Consolidation

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